



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
EDMONSON COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES**

August 10, 1999

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable B. J. Honeycutt, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the Edmonson County Sheriff's Settlement - 1998 Taxes as of August 10, 1999. This tax settlement is the responsibility of the Edmonson County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Edmonson County Sheriff's taxes charged, credited, and paid as of August 10, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable B. J. Honeycutt, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Based on the results of our audit, we present a comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$44,405 And Enter Into A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated March 9, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2000

EDMONSON COUNTY
B. J. HONEYCUTT, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

August 10, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Former Sheriff	\$ 54,417	\$ 49,339	\$ 207,672	\$ 83,925
Franchise Corporation Taxes	108	907	479	
Increased Through Erroneous Assessments	52	42	115	136
Penalties	3,793	3,432	14,461	5,854
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross Chargeable to Sheriff	\$ 58,370	\$ 53,720	\$ 222,727	\$ 89,915
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Credits</u>				
Discounts	\$ 1	\$ 1	\$ 3	\$ 1
Exonerations	151	159	579	233
Delinquent Real Estate	8,007	7,331	30,688	12,356
Uncollected Franchise Corporation Taxes	99	900	459	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Credits	\$ 8,258	\$ 8,391	\$ 31,729	\$ 12,590
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Tax Yield	\$ 50,112	\$ 45,329	\$ 190,998	\$ 77,325
Less: Commissions *	2,130	1,847	7,162	3,286
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Taxes Due	\$ 47,982	\$ 43,482	\$ 183,836	\$ 74,039
Taxes Paid	48,392	43,859	185,327	74,636
Refunds (Current and Prior Year)	24	20	91	37
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ (434)	\$ (397)	\$ (1,582)	\$ (634)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* and ** See Page 4

EDMONSON COUNTY
B. J. HONEYCUTT, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
August 10, 1999
(Continued)

* Commissions:

4.25% on	\$	140,995
4.00% on	\$	31,771
3.75% on	\$	190,998

** Special Taxing Districts:

Library District	\$	(95)
Ambulance District		(252)
City of Brownsville		(23)
Big Reedy Watershed District		<u>(27)</u>

(Refunds Due Sheriff)	\$	<u><u>(397)</u></u>
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The accompanying notes are an integral part of the financial statement.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

August 10, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of August 10, 1999, the bank balances were fully insured. However, as of February 10, 1999, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$44,405 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
August 10, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 5, 1999 through May 7, 1999 for the Sheriff.

COMMENT AND RECOMMENDATION

EDMONSON COUNTY
B. J. HONEYCUTT, SHERIFF
COMMENT AND RECOMMENDATION

August 10, 1999

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$44,405 And Enter Into A Written Agreement To Protect Deposits

On February 10, 1999, \$44,405 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into such an agreement as described above with the depository institution on April 21, 1999.

Sheriff's Response:

Agree.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable B. J. Honeycutt, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

We have audited the Edmonson County Sheriff's Settlement - 1998 Taxes as of August 10, 1999, and have issued our report thereon dated March 9, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Edmonson County Sheriff's Settlement - 1998 Taxes as of August 10, 1999 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable B. J. Honeycutt, Edmonson County Sheriff
Members of the Edmonson County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2000

